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SUBJECT: TAIWAN: BELATED PROGRESS ON CROSS-STRAIT DIRECT LINKS NEGOTIATIONS

1. Summary. In an August 3 press conference, Premier Frank Hsieh announced that Taiwan authorities will grant approvals to Taiwan carriers overflying China's airspace, and are willing to negotiate with China on passenger/cargo direct charter flights. Most political parties and companies are happy both about this announcement, and about the initial positive response from China. Mainland Affairs Council (MAC), Ministry of Transportation and Communications (MOTC) are working on the fleshing out relevant regulations while the designated negotiator Taipei Airlines Association (TAA) is awaiting further instructions. As People First Party Vice Convener Sun Da-chien commented, although this good news arrives very late, it is "Better late than never." End summary.

Premier's Announcement

2. In the Aug. 3 announcement, Hsieh explained that the decision was made mainly to keep domestic air carriers competitive by cutting down on flying time and fuel costs. He added that he has instructed MAC and MOTC to make all necessary arrangements. When asked whether Taiwan will open its airspace to China's air carriers, the Executive Yuan indicated that this issue would not be included in the negotiation agenda. In conclusion, EY spokesman Cho Jung-tai conveyed Taiwan's hope that this good-will gesture could reopen the cross-strait dialogue mechanism.

China Gives Positive Response

3. After Premier Hsieh made the announcement, China's Taiwan Affairs office spokesman responded that China welcomes this statement, and reiterated that they will try to make progress on issues to expedite positive interactions and maintain cross-Straits peace.

4. KMT whip Cho Bou-yuen said that the KMT welcomes this announcement. PFP Vice Convener Sun Da-chien indicated that in March 2005 he received information that domestic carriers had already received China's approval to overfly China on their Taiwan-EU routes. Sun thinks Premier's announcement comes too late, but commented, "Better late than never." TSU Secretary General Chen Chen-lung commented that from a

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cost-saving point of view, the TSU supports this initiative on renewed cross-Straits negotiations as long as it is based on equal sovereignty status. CIER President Chen Tien-jy said he believed that this initiative would strengthen Taiwan-EU economic ties. Taiwan Electrical and Electronic Manufacturers' Association (TEEMA) Chairman Hsu Sheng-hsiung suggested that Taiwan authorities follow the current New Year charter flight negotiation model to conduct cross-strait negotiations as soon as possible. Even if passenger/cargo charter flights cannot be implemented in one step, at least the cargo flights might get started. Hsu added that Taiwan authorities should play a role as consultant, not negotiator, "because only the carriers know the important issues."

Implementation Agencies

5. Mainland Affairs Council (MAC) explained that its reason for approving overflying China and negotiating passenger/cargo charter flights was to enhance Taiwan air carriers' competitiveness. MAC said the next step depends on China's response. Although it is acceptable for Taiwan to negotiate both passenger and cargo charter flights at the same time, Taiwan hopes to negotiate the cargo operation first. According to MAC, it is very unlikely that China will propose that their carriers overfly Taiwan's airspace. MAC expects to follow the New Year charter flights as a negotiation model. Premier Hsieh subsequently stated publicly that Taiwan could not permit Chinese overflights for reasons of national security.

6. According to Ministry of Transportation and Communications (MOTC) Minister Lin Lin-san, carriers who

want to overfly China airspace only need to get approvals from civil aviation authorities from both sides. MOTC will coordinate with MAC to draft regulations for overflying China within three days, with EY ratification expected within five days. Once the EY approves the regulations, carriers may submit applications. On the passenger charter flights, EY intends to focus on holidays first, in line with China's earlier offer to allow such flights.

17. Civil Aeronautics Administration (CAA) Director General Billy Chang said that once the overflight regulation is approved by EY, CAA will complete carriers' applications within one week. Taipei Airlines Association (TAA) Chairman Fan Chih-chiang confirmed that he received MAC's oral instructions on cross-strait negotiations on the evening of August 3. He believes that although negotiation details are much more complicated this time, there is a good chance for success because authorities on both sides are willing. Fan pointed out that Taiwan carriers are more interested in cargo flights, while China has its eye on passenger flights. According to Fan, Taiwan-based China Airlines suggested that the first stage of direct cross-strait flights be cargo flights between Taiwan and Shanghai, with Guangzhou and Beijing added later. So far, except for MAC's oral notice, Fan has not received any concrete instructions on negotiations from the government. Therefore, TAA has not taken any actions yet.

18. Taiwan carriers support passenger charter flight service during holidays. Some carriers, including FAT and TransAsia, are against two-day weekend charters, because on most Fridays/Saturdays, there would be only Taiwan-bound passengers, while on most Sundays/Mondays there would be only China-bound passengers, making flights hard to operate profitably.

Taiwan Major Carriers Movement

19. CAL and EVA, the major beneficiaries, expect that overflying China could save their EU/South Asia/Mid Asia-bound flights lots of flight time, and could therefore save an annual fuel cost of NTD 150 million each. CAL will submit overflying-China applications to CAA on its Taipei-Vienna, Taipei-Hanoi and Taipei-New Delhi routes. EVA AIR will take the same action.

10. The airlines provided the following expected cost/time saving from overflying China:

| CAL | Route | Saving Time | Saving Fuel |
|-----------|----------------------|-----------------|-------------------|
| ----- | ----- | ----- | ----- |
| Passenger | Taipei-Frankfurt | one hour | USD 10,000-20,000 |
| | Taipei-Vienna | one hour | same |
| | Taipei-New Delhi | 30 min | same |
| | Taipei-Hanoi | 30 min | same |
| Cargo | Nine EU-bound routes | one hour/flight | |

| EVA | Route | Saving Time (one way) |
|-----------|------------------------|-----------------------|
| ----- | ----- | ----- |
| Passenger | Taipei-Paris | one hour |
| | Taipei-Vientiane | 10-30 min |
| | Taipei-Hanoi | 10-30 min |
| Cargo | Different destinations | 10-30 min/flight |

(overall fuel costs could reach NTD 0.2 billion a year)

PAAL